

CITY OF TRAER
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Traer

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Russell L. Drinovsky	Mayor	Jan 2004
Mark A. Mason	Mayor Pro tem	Jan 2004****
Mark A. Mason	Council Member	Jan 2004****
Dean R. Ohrt (interim)	Council Member	Jan 2004
Kitty Yanda	Council Member	Jan 2004
Jon Panfil	Council Member	Jan 2006*
Anthony Stansbery	Council Member	Jan 2006
Sharon Hiltale	City Clerk	Indefinite**
Dorothy Weida	Deputy Clerk	Indefinite
Marc Powell	City Attorney	Indefinite
Cecilia Harmsen	City Treasurer	Indefinite
Randy D. Magnussen	TMU Trustee/Chairman	Jan 2009
Sandra Whannel	TMU Trustee	Jan 2004
Richard Thompson	TMU Trustee	Jan 2006
Bruce Overton	TMU Trustee	Jan 2007
Daniel Larmore	TMU Trustee	Jan 2008
Kent Holst	General manager	Indefinite***
Sharon Hiltale	Office Manager	Indefinite**

(After January 2004)

Russell L. Drinovsky	Mayor	Jan 2006
Mark A. Mason	Mayor Pro tem	Jan 2006****
Lou Rausch (interim)	Council Member	Jan 2006
Patty Guzman	Council Member	Jan 2006
Raymond Mundt	Council Member	Jan 2008
Dean R. Ohrt	Council Member	Jan 2008
Mark A. Mason	Council Member	Jan 2008****
Jon Panfil	City Clerk	Indefinite
Dorothy Weida	Deputy Clerk	Indefinite
Marc Powell	City Attorney	Indefinite
Cecilia Harmsen	City Treasurer	Indefinite
Randy D. Magnussen	TMU Trustee/Chairman	Jan 2009
Richard Thompson	TMU Trustee	Jan 2006
Bruce A. Overton	TMU Trustee	Jan 2007
Daniel M. Larmore	TMU Trustee	Jan 2008
Sandra J. Whannel	TMU Trustee	Jan 2010
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite

* Resigned as of December 2003. Lou Rausch elected as interim official.

** Resigned as of September 2003. Jon Panfil appointed after resigning seat on council.

*** Resigned as of December 2003. Pat Stief hired as replacement.

**** Mayor Pro tem serves a two year term. Council members serve a four year term.

Independent Auditors' Report

To the Honorable Mayor, Members of the City Council and
Board of Trustees, Traer Municipal Utilities:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Traer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 31, 2004 on our consideration of the City of Traer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 22 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
August 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Traer provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations. In addition, the reader should consider that this Management's Discussion and Analysis places focus on the primary government and little focus, if any, on the component unit.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 15.3%, or approximately \$230,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$20,000 and bond proceeds increased \$210,000.
- Disbursements increased 111.1%, or approximately \$1,335,000, in fiscal 2004 from fiscal 2003. Debt service and capital projects disbursements increased approximately \$79,000 and \$1,359,000, respectively.
- The City's total cash basis net assets decreased 15.3%, or approximately \$250,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$250,000 and the assets of the business type activities remained constant.
- Traer Municipal Utilities total cash basis net assets decreased 45.9% to \$1,417,437 due largely to the generator project in the electric utility.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sewer project and the discreetly presented component unit Traer Municipal Utilities. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for the sewer capital project fund, considered to be a major fund of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$1.627 million to \$1.377 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year ended June 30, 2004
Receipts and transfers:		
Program receipts:		
Charges for service	\$	237
Operating grants, contributions and restricted interest		137
Capital grants, contributions and restricted interest		482
General receipts:		
Property tax		466
Local option sales tax		60
Unrestricted investment earnings		19
Bond proceeds		494
Other general receipts		98
Transfers, net		293
Total receipts and transfers	\$	2,286
Disbursements:		
Public safety	\$	160
Public works		310
Health and social services		5
Culture and recreation		140
Community and economic development		98
General government		152
Debt service		205
Capital projects		1,466
Total disbursements	\$	2,536
Decrease in cash basis net assets	\$	(250)
Cash basis net assets beginning of year		1,627
Cash basis net assets end of year	\$	1,377

The City's total receipts for governmental activities decreased by 15.3%, or \$230,000. The total cost of all programs and services increased by approximately \$1,335,000, or 111.1%, with no new programs added this year. The significant decrease in receipts was primarily the result of revenues reclassified as transfers when reporting the primary government and component unit together.

The cost of all governmental activities this year was \$2.536 million compared to \$1.201 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$1.848 million because some of the cost was paid by those directly benefited from the programs (\$237,000) or by other

governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$619,000).

Changes in Cash Basis Net Assets of Business Type Activities (I & I Project) (Expressed in Thousands)	
	Year ended June 30, 2004
General receipts:	
Unrestricted interest on investments	\$ 2
Bond proceeds	173
Total receipts	<u>\$ 175</u>
Disbursements and transfers:	
Sewer	\$ 170
Transfers	5
Total disbursements and transfers	<u>\$ 175</u>
Increase (decrease) in cash basis net assets	\$ -
Cash basis net assets beginning of year	<u>-</u>
Cash basis net assets end of year	<u>\$ -</u>

Total business type activities receipts for the fiscal year were \$175,000 compared to \$349,000 last year. This significant decrease was due primarily to the sewer projects related State Revolving Funds received mostly in fiscal year 2003. The cash balance remained the same as the previous year. Total disbursements and transfers for the fiscal year decreased by 49.8% to a total of \$175,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$1,377,018, a decrease of more than \$249,536 below last year's total of \$1,626,554. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Library Improvement Fund cash balance decreased \$837,024 from the prior year to \$107,020. All of this decrease was due to the new library being completed and mostly paid for during fiscal year 2004.
- The General Fund cash balance increased by \$116,668 to \$788,533 during the fiscal year.
- The aggregate Nonmajor Governmental fund balance increased sharply by \$470,726 to \$480,465. The increase was the result of a new street improvement project started during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 3, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$550,000 on capital projects involving the new library. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City and Utilities had approximately \$4,030,000 in bonds and other long-term debt, compared to approximately \$3,584,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30, 2004
General obligation bonds	\$ 975
Component Unit bonds/notes	2,252
State revolving loan	803
Total	\$ 4,030

Debt increased as a result of issuing general obligation bonds for a street improvement construction project. In addition, the City received additional state revolving funds for the sewer project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$975,000 is significantly below its constitutional debt limit of \$3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Traer's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, including tax rate and fees that will be charged for various City Services. The City Council was facing continued state funding cutbacks (approximately \$25-30,000), as well as another decrease in the "residential rollback", which affects the taxable value of properties in the city. The Traer Municipal Utilities Board was working on a budget that included a 50% increase in the wholesale cost of electric power.

Taxable value in the City of Traer increased approximately 6%, from \$34.3 million to \$37.7 million. This was due to an increase in the assessed values of existing homes, the addition of new residences in the Prairie West subdivision, and an increase of \$1.4 million in the Traer Manufacturing Tax Increment Financing district. This was also the first year the Local Option Tax was included in the budget process. Tax revenues were budgeted to increase approximately \$30,000 (6%) in FY05. This was the result of the increase in value offset by a slight decrease in the tax rate (from \$12.96 to \$12.94 per \$1,000 of taxable value). Overall revenues were budgeted to decrease by \$200,000, as there was a GO Bond in FY04, as well as decreased contributions for the Library Addition and Renovation. Expenditures were expected to be relatively flat, with the exceptions being Local Option Tax expenditures and the Library capital project. Total City cash balances were projected to decrease by \$250,000.

The Traer Municipal Utilities Board approved a rate increase in January of 2004, the first increase in 22 years for TMU electric customers. The FY05 budget reflected both the increased revenue and the associated increase in the cost of purchased power. Water rates were unchanged, and water/sewer revenues were projected to reflect only a modest increase due to consumption increases. Overall, total cash balances of Traer Municipal Utilities were projected to increase by \$12,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon Panfil, City Clerk, 649 second Street, City of Traer, Iowa.

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 159,791	\$ 87,921	\$ -	\$ -
Public works	310,259	113,716	132,760	-
Health and social services	4,693	-	-	-
Culture and recreation	140,266	34,440	-	481,978
Community and economic development	98,216	1,910	3,970	-
General government	151,884	-	-	-
Debt service	205,107	-	-	-
Capital projects	1,465,379	-	-	-
Total governmental activities	\$ 2,535,595	\$ 237,987	\$ 136,730	\$ 481,978
Business type activities:				
Sewer (I & I Project)	\$ 169,703	\$ -	\$ -	\$ -
Traer Municipal Utilities component unit:				
Water	\$ 363,628	\$ 367,355	\$ -	\$ -
Sewer	64,607	122,255	-	-
Electric	2,877,990	1,873,423	-	-
Total component unit	\$ 3,306,225	\$ 2,363,033	\$ -	\$ -
Total	\$ 6,011,523	\$ 2,601,020	\$ 136,730	\$ 481,978
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Local option sales tax				
Unrestricted interest on investments				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			Treaer Municipal Utilities
Governmental Activities	Business Type Activities	Total	Major Discretely Presented Component Unit
\$ (71,870)	\$ -	\$ (71,870)	\$ -
(63,783)	-	(63,783)	-
(4,693)	-	(4,693)	-
376,152	-	376,152	-
(92,336)	-	(92,336)	-
(151,884)	-	(151,884)	-
(205,107)	-	(205,107)	-
(1,465,379)	-	(1,465,379)	-
\$ (1,678,900)	\$ -	\$ (1,678,900)	\$ -
\$ -	\$ (169,703)	\$ (169,703)	\$ -
\$ -	\$ -	\$ -	\$ 3,727
-	-	-	57,648
-	-	-	(1,004,567)
\$ -	\$ -	\$ -	\$ (943,192)
\$ (1,678,900)	\$ (169,703)	\$ (1,848,603)	\$ (943,192)
\$ 407,041	\$ -	\$ 407,041	\$ -
7,978	-	7,978	-
50,606	-	50,606	-
60,462	-	60,462	-
18,604	1,878	20,482	27,526
494,173	173,103	667,276	-
97,830	-	97,830	416
292,670	(5,278)	287,392	(287,392)
\$ 1,429,364	\$ 169,703	\$ 1,599,067	\$ (259,450)
\$ (249,536)	\$ -	\$ (249,536)	\$ (1,202,642)
1,626,554	-	1,626,554	2,620,079
\$ 1,377,018	\$ -	\$ 1,377,018	\$ 1,417,437
\$ 453,338	\$ -	\$ 453,338	\$ -
10,073	-	10,073	301,886
107,020	-	107,020	-
806,587	-	806,587	1,115,551
\$ 1,377,018	\$ -	\$ 1,377,018	\$ 1,417,437

City of Traer

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	General	Special Revenue Road Use Tax	Capital Project Library Improvement	Other Nonmajor Governmental Funds	Total
Receipts:					
Property tax	\$ 399,752	\$ -	\$ -	\$ 50,606	\$ 450,358
Tax increment financing collections	7,978	-	-	-	7,978
Other city tax	7,289	-	-	60,462	67,751
Licenses and permits	2,154	-	-	-	2,154
Use of money and property	12,602	-	3,455	2,547	18,604
Intergovernmental	157,223	132,760	-	-	289,983
Charges for service	214,406	-	-	-	214,406
Miscellaneous	99,292	-	348,690	-	447,982
Total receipts	\$ 900,696	\$ 132,760	\$ 352,145	\$ 113,615	\$ 1,499,216
Disbursements:					
Operating:					
Public safety	\$ 159,791	\$ -	\$ -	\$ -	\$ 159,791
Public works	145,440	164,819	-	-	310,259
Health and social services	4,693	-	-	-	4,693
Culture and recreation	140,266	-	-	-	140,266
Community and economic development	43,978	-	-	54,238	98,216
General government	151,884	-	-	-	151,884
Debt service	-	-	-	205,107	205,107
Capital projects	-	-	1,444,579	20,800	1,465,379
Total disbursements	\$ 646,052	\$ 164,819	\$ 1,444,579	\$ 280,145	\$ 2,535,595
Excess (deficiency) of receipts over (under) disbursements	\$ 254,644	\$ (32,059)	\$ (1,092,434)	\$ (166,530)	\$ (1,036,379)
Other financing sources (uses):					
Bond proceeds	\$ -	\$ -	\$ -	\$ 494,173	\$ 494,173
Operating transfers in	173,996	32,153	255,410	156,229	617,788
Operating transfers out	(311,972)	-	-	(13,146)	(325,118)
Total other financing sources (uses)	\$ (137,976)	\$ 32,153	\$ 255,410	\$ 637,256	\$ 786,843
Net change in cash balances	\$ 116,668	\$ 94	\$ (837,024)	\$ 470,726	\$ (249,536)
Cash balances beginning of year	671,865	906	944,044	9,739	1,626,554
Cash balances end of year	\$ 788,533	\$ 1,000	\$ 107,020	\$ 480,465	\$ 1,377,018
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	\$ -	\$ -	\$ 10,073	\$ 10,073
Unreserved:					
General fund	788,533	-	-	-	788,533
Special revenue funds	-	1,000	-	17,054	18,054
Capital projects fund	-	-	107,020	453,338	560,358
Total cash basis fund balances	\$ 788,533	\$ 1,000	\$ 107,020	\$ 480,465	\$ 1,377,018

See notes to financial statements.

City of Traer

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Fund

As of and for the year ended June 30, 2004

	<u>Enterprise Fund</u>
	<u>Sewer (I & I Project)</u>
Operating receipts	\$ -
Operating disbursements:	
Business type activities	\$ 169,703
Deficiency of operating receipts under operating disbursements	\$ (169,703)
Non-operating receipts:	
Interest on investments	\$ 1,878
State revolving fund proceeds	173,103
Total non-operating receipts	\$ 174,981
Excess of receipts over disbursements	\$ 5,278
Other financing sources (uses):	
Operating transfers in	\$ 72,068
Operating transfers out	(77,346)
Total other financing uses	\$ (5,278)
Net change in cash balances	\$ -
Cash balances beginning of year	-
Cash balances end of year	\$ -
Cash Basis Fund Balances	
Total cash basis fund balances	\$ -

See notes to financial statements.

City of Traer

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Traer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These government financial statements present the City of Traer (the primary government), and the Traer Municipal Utility (its component unit). The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Traer Municipal Utility is presented in a separate column to emphasize that it is a legally separate entity, but is financially accountable to the City, or whose relationship with the city is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a five-member board appointed by the Mayor, and the Utility's operating budgets are subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, City Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Landfill Commission and Tama County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrate the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Library Improvement Fund is used to account for the new library capital project.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the sewer capital project and related State Revolving Fund proceeds.

C. Measurement Focus and Basis of Accounting

The City of Traer maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

In addition the City and Traer Municipal Utilities had investments in the Iowa Public Agency Investment Trust which are valued at an amortized amount of \$1,146,965 and \$1,184,955, respectively, pursuant to rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization. Also, the City of Traer has invested \$15,000 in U. S. Treasury Series HH Savings Bonds.

(3) Note receivable

The City of Traer has entered into a 28E agreement with its component unit Traer Municipal Utilities, the Traer Development Corporation, the Traer Chamber of Commerce, Inc. and the Kubik-Finch Post No. 142 of the American Legion, Traer, Iowa. The purpose of this agreement is to acquire, finance and develop real estate ("Prairie West First Addition") and to then market the developed lots to the general public in order to promote the economic development of the City of Traer, Iowa. The City paid for the construction of streets, storm sewers, sanitary sewers and other related improvements in and around "Prairie West First Addition" in the amount of approximately \$382,062. The City has received a non-interest bearing mortgage note from the Traer Chamber of Commerce, Inc. for \$382,062. The balance on this mortgage note receivable as of June 30, 2004 was \$41,260. Payments received during the year ended June 30, 2004 were \$104,109, and expenses related to the lots were \$29,037. The Traer Municipal Utilities paid for the construction of streets, storm sewers, sanitary sewers and other related improvements in and around "Prairie West First Addition" in the amount of approximately \$141,010. The Utilities have received a non-interest bearing mortgage note from the Traer Chamber of Commerce, Inc. for \$141,010. The balance on this mortgage note receivable as of June 30, 2004 was \$46,057. Payments received during the year ended June 30, 2004 were \$15,037. These are non-recourse notes, payable upon demand by the City and its component unit. Proceeds from the sale of residential lots are expected to be used for repayment.

(4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, component unit revenue bonds/notes and the state revolving loan are as follows:

Year Ending June 30,	General Obligation Bonds		Component Unit Revenue Bonds/Notes		State Revolving Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 105,000	\$ 38,745	\$ 117,786	\$ 93,136	\$ 31,000	\$ 33,268	\$ 253,786	\$ 165,149
2006	100,000	33,310	118,925	89,621	32,000	31,987	250,925	154,918
2007	110,000	29,755	125,121	86,049	33,000	30,663	268,121	146,467
2008	115,000	25,525	126,378	82,293	34,000	29,296	275,378	137,114
2009	125,000	20,860	132,696	77,973	36,000	27,886	293,696	126,719
2010 - 2014	310,000	46,424	760,691	306,472	204,000	115,778	1,274,691	468,674
2015 - 2019	110,000	4,263	785,088	122,668	250,000	69,699	1,145,088	196,630
2020 - 2023	-	-	85,679	5,947	183,000	15,723	268,679	21,670
Total	\$ 975,000	\$ 198,882	\$ 2,252,364	\$ 864,159	\$ 803,000	\$ 354,300	\$ 4,030,364	\$ 1,417,341

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund. In addition, principal and interest on the State Revolving Loan are paid from the Debt Service Fund as required by the resolution.

The resolutions providing for the issuance of the revenue bonds/notes include the following provisions.

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bonds/notes holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to separate electric, water and sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bonds/notes principal and interest payments when due.
- (c) Additional monthly transfers of 25% of the amount required in the sewer bond sinking fund to a revenue reserve account and \$1,000 to the improvement fund account within the Enterprise Funds shall be made until specific minimum balances have been accumulated. Additional monthly transfers shall also be made to the electric and water reserve accounts to accumulate amounts equal to the maximum principal and interest due in any succeeding fiscal year. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(5) Pension and Retirement Benefits

The City and the Utilities contribute to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City and Utilities are required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS, including the utilities, for the years ended June 30, 2004, 2003 and 2002 were \$33,816, \$30,381 and \$26,928, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,220
Sick leave	<u>442</u>
Total	<u>\$ 3,662</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

The component unit's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2004 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 14,904
Sick leave	<u>4,932</u>
Total	<u>\$ 19,836</u>

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Traer Municipal Utilities	\$ 96,650
	Enterprise Fund:	
	Sewer	<u>77,346</u>
		<u>\$173,996</u>
Special Revenue:		
Road Use Tax	General	\$ 19,007
	Capital Projects:	
	Street Improvement	<u>13,146</u>
		<u>\$ 32,153</u>
Local Option Sales Tax	General	<u>\$ 1,500</u>
Debt Service	Traer Municipal Utilities	\$ 35,742
	General	<u>118,987</u>
		<u>\$154,729</u>
Capital Projects:		
Library Improvement	Traer Municipal Utilities	\$100,000
	General	<u>155,410</u>
		<u>\$255,410</u>
Enterprise Fund:		
Sewer	Traer Municipal Utilities	\$ 55,000
	General	<u>17,068</u>
		<u>\$ 72,068</u>
Total		<u>\$689,856</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Contingent Liabilities

The City of Traer is in the process of an environmental contamination cleanup. The costs associated with this cleanup cannot be estimated at this time as this is an ongoing project. Total costs through June 30, 2004 were \$2,850 of which \$2,850 has been reimbursed by a state agency. Net costs to the City of Traer for June 30, 2004 were \$0. In addition, the City received its share of the Phillip's Petroleum settlement in the amount of \$14,000.

In the normal course of business, there may be various outstanding contingent liabilities such as lawsuits etc., which are not reflected in the accompanying financial statements. The City's management and city attorney are of the opinion that insurance is adequate to cover any anticipated losses. Two such losses have been asserted, however, no estimate of loss, if any, is determinable.

(10) Tama County Solid Waste Disposal Commission

The City in conjunction with other municipalities in Tama County has created the Tama County Solid Waste Disposal Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Commission will be prorated among the municipalities. The Commission is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction. The Commission has accumulated \$685,342 for closure/post closure expenditures. However, the Commission may not be accumulating sufficient financial resources and the participating governments may be obligated for a proportionate share of the debt, therefore, the City of Traer may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2004 the City of Traer paid the Tama County Solid Waste Disposal Commission \$8,767. The Commission is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Commission can be obtained from the Tama County Solid Waste Disposal Commission.

(11) Construction Commitment

As of June 30, 2004, the City, including its component unit, had the following commitments with respect to the following projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Library project	\$ 76,632	August 1, 2004
New generators	\$ 103,684	August 1, 2004

(12) Interdepartmental Loans

Water Control Project

The Enterprise Fund, Electric Utilities has loaned the Enterprise Fund, Water Utility \$60,000 for the water control project. This loan is a non-interest bearing note, payable from the revenue of the water fund. No payment schedule has been established.

(13) Component Unit Detail

Traer Municipal Utilities is a component unit of the City of Traer. The Statement of Cash Receipts, Disbursements and Changes in Cash Balances and a list of transactions between the City and the Utilities for the year ended June 30, 2004 follows:

	Traer Municipal Utilities Enterprise Funds			
	Electric	Water	Sewer	Total
Operating receipts:				
Charges for service	\$ 1,873,423	\$ 367,355	\$ 122,255	\$ 2,363,033
Miscellaneous	-	321	95	416
Total operating receipts	\$ 1,873,423	\$ 367,676	\$ 122,350	\$ 2,363,449
Operating disbursements:				
Business type activities	\$ 2,877,990	\$ 363,628	\$ 64,607	\$ 3,306,225
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (1,004,567)	\$ 4,048	\$ 57,743	\$ (942,776)
Non-operating receipts:				
Interest on investments	\$ 21,044	\$ 4,551	\$ 1,931	\$ 27,526
Excess (deficiency) of receipts over (under) disbursements	\$ (983,523)	\$ 8,599	\$ 59,674	\$ (915,250)
Other financing uses:				
Operating transfers out	(232,392)	-	(55,000)	(287,392)
Net change in cash balances	\$ (1,215,915)	\$ 8,599	\$ 4,674	\$ (1,202,642)
Cash balances beginning of year	2,295,414	181,725	142,940	2,620,079
Cash balances end of year	\$ 1,079,499	\$ 190,324	\$ 147,614	\$ 1,417,437
Cash Basis Fund Balances				
Reserved for debt service	\$ 202,915	\$ 98,971	\$ 147,614	\$ 449,500
Unreserved	876,584	91,353	-	967,937
Total cash basis fund balances	\$ 1,079,499	\$ 190,324	\$ 147,614	\$ 1,417,437

City Paid to Utilities:

Utilities, miscellaneous (office services)	<u>\$153,613</u>
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(14) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Traer
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Major Component Unit Included in the Budget
Receipts:			
Property tax	\$ 450,358	\$ -	\$ -
Tax increment financing collections	7,978	-	-
Other city tax	67,751	-	-
Licenses and permits	2,154	-	-
Use of money and property	18,604	1,878	27,526
Intergovernmental	289,983	-	-
Charges for service	214,406	-	2,363,449
Miscellaneous	447,982	-	-
Total receipts	<u>\$ 1,499,216</u>	<u>\$ 1,878</u>	<u>\$ 2,390,975</u>
Disbursements:			
Public safety	\$ 159,791	\$ -	\$ -
Public works	310,259	-	-
Health and social services	4,693	-	-
Culture and recreation	140,266	-	-
Community and economic development	98,216	-	-
General government	151,884	-	-
Debt service	205,107	-	-
Capital projects	1,465,379	-	-
Business type activities	-	169,703	3,306,225
Total disbursements	<u>\$ 2,535,595</u>	<u>\$ 169,703</u>	<u>\$ 3,306,225</u>
Deficiency of receipts under disbursements	\$ (1,036,379)	\$ (167,825)	\$ (915,250)
Other financing sources (uses), net	<u>786,843</u>	<u>167,825</u>	<u>(287,392)</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	\$ (249,536)	\$ -	\$ (1,202,642)
Balances beginning of year	<u>1,626,554</u>	<u>-</u>	<u>2,620,079</u>
Balances end of year	<u>\$ 1,377,018</u>	<u>\$ -</u>	<u>\$ 1,417,437</u>

See accompanying independent auditors' report.

		Budgeted Amounts		Final to Net
	Net	Original	Final	Variance
\$	450,358	\$ 438,313	\$ 438,313	\$ 12,045
	7,978	8,000	8,000	(22)
	67,751	2,950	67,950	(199)
	2,154	5,900	5,900	(3,746)
	48,008	23,200	23,200	24,808
	289,983	373,320	373,320	(83,337)
	2,577,855	2,605,840	2,705,840	(127,985)
	447,982	500,000	500,000	(52,018)
\$	3,892,069	\$ 3,957,523	\$ 4,122,523	\$ (230,454)
\$	159,791	\$ 200,800	\$ 202,800	\$ 43,009
	310,259	332,485	358,485	48,226
	4,693	9,087	13,087	8,394
	140,266	129,000	159,000	18,734
	98,216	44,124	110,124	11,908
	151,884	157,000	177,000	25,116
	205,107	188,000	210,000	4,893
	1,465,379	1,600,000	1,900,000	434,621
	3,475,928	4,174,170	4,254,170	778,242
\$	6,011,523	\$ 6,834,666	\$ 7,384,666	\$ 1,373,143
\$	(2,119,454)	\$ (2,877,143)	\$ (3,262,143)	\$ 1,142,689
	667,276	1,760,000	1,860,000	(1,192,724)
\$	(1,452,178)	\$ (1,117,143)	\$ (1,402,143)	\$ (50,035)
	4,246,633	2,840,655	2,840,655	1,405,978
\$	2,794,455	\$ 1,723,512	\$ 1,438,512	\$ 1,355,943

City of Traer

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$550,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

City of Traer

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue		Capital Projects	
	Local Option Sales Tax	Debt Service	Street Improvement	Total
Receipts:				
Property tax	\$ -	\$ 50,606	\$ -	\$ 50,606
Other city tax	60,462	-	-	60,462
Use of money and property	63	106	2,378	2,547
Total receipts	\$ 60,525	\$ 50,712	\$ 2,378	\$ 113,615
Disbursements:				
Operating:				
Community and economic development	\$ 44,971	\$ -	\$ 9,267	\$ 54,238
Debt service	-	205,107	-	205,107
Capital projects	-	-	20,800	20,800
Total disbursements	\$ 44,971	\$ 205,107	\$ 30,067	\$ 280,145
Excess (deficiency) of receipts over (under) disbursements	\$ 15,554	\$ (154,395)	\$ (27,689)	\$ (166,530)
Other financing sources (uses):				
Bond proceeds, net of discount and fees of \$5,827	\$ -	\$ -	\$ 494,173	\$ 494,173
Operating transfers in	1,500	154,729	-	156,229
Operating transfers out	-	-	(13,146)	(13,146)
Total other financing sources	\$ 1,500	\$ 154,729	\$ 481,027	\$ 637,256
Net change in cash balances	\$ 17,054	\$ 334	\$ 453,338	\$ 470,726
Cash balances beginning of year	-	9,739	-	9,739
Cash balances end of year	\$ 17,054	\$ 10,073	\$ 453,338	\$ 480,465
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	\$ 10,073	\$ -	\$ 10,073
Unreserved:				
Special revenue funds	17,054	-	-	17,054
Capital project fund	-	-	453,338	453,338
Total cash basis fund balances	\$ 17,054	\$ 10,073	\$ 453,338	\$ 480,465

See accompanying independent auditors' report.

City of Traer
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2000	May 15, 2000	4.9-5.5%	\$ 400,000
Series 2001	May 1, 2001	4.0-4.7%	300,000
Series 2003	Aug 1, 2003	1.75-3.9%	500,000
Total			
Component unit bonds/notes:			
Revenue notes:			
Electric Capital Loan Note	May 1, 2003	2.5-4.7%	\$ 1,750,000
Revenue Bonds:			
FMHA Water Bond	Jan 1, 1982	5.00%	\$ 871,200
Total component unit bonds/notes			
State Revolving Loans:			
2001 Sewer Revenue Bond	Aug 3, 2001	4.30%	\$ 757,000
2003 Sewer Revenue Bond	Aug 5, 2003	4.30%	101,000
Total			

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 300,000	\$ -	\$ 70,000	\$ 230,000	\$ 15,720	\$ -
275,000	-	30,000	245,000	12,195	-
-	500,000	-	500,000	12,996	-
\$ 575,000	\$ 500,000	\$ 100,000	\$ 975,000	\$ 40,911	\$ -
\$ 1,750,000	\$ -	\$ 75,000	\$ 1,675,000	\$ 71,340	\$ -
598,866	-	21,502	577,364	30,152	-
\$ 2,348,866	\$ -	\$ 96,502	\$ 2,252,364	\$ 101,492	\$ -
\$ 659,897	\$ 72,103	\$ 26,000	\$ 706,000	\$ 31,095	\$ -
-	101,000	4,000	97,000	1,677	-
\$ 659,897	\$ 173,103	\$ 30,000	\$ 803,000	\$ 32,772	\$ -

City of Traer

Bond and Note Maturities

June 30, 2004

General Obligation Bonds							
Year Ending June 30,	Series 2000		Series 2001		Series 2003		Total
	Issued May 15, 2000		Issued May 1, 2001		Issued Aug 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.10%	\$ 75,000	4.20%	\$ 30,000		\$ -	\$ 105,000
2006	5.20%	25,000	4.30%	35,000	1.75%	40,000	100,000
2007	5.30%	30,000	4.40%	40,000	2.00%	40,000	110,000
2008	5.40%	30,000	4.50%	45,000	2.40%	40,000	115,000
2009	5.50%	35,000	4.60%	50,000	2.70%	40,000	125,000
2010	5.50%	35,000	4.70%	45,000	3.00%	40,000	120,000
2011		-		-	3.20%	45,000	45,000
2012		-		-	3.40%	45,000	45,000
2013		-		-	3.60%	50,000	50,000
2014		-		-	3.70%	50,000	50,000
2015		-		-	3.80%	55,000	55,000
2016		-		-	3.90%	55,000	55,000
Total		\$ 230,000		\$ 245,000		\$ 500,000	\$ 975,000

Component Unit Revenue Bonds/Notes						Revenue Loans					
Year Ending June 30,	Revenue Capital Loan Note		Revenue Bond		Total	State Revolving Loan		State Revolving Loan		Total	
	Electric Series 2003		FVIHA Water Bond			2001 Sewer		2003 Sewer			
	Issued May 1, 2003		Issued Jan 1, 1982			Issued Aug 3, 2001		Issued Aug 5, 2003			
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amounts	Interest Rates	Amounts		
2005	2.50%	\$ 95,000	5.00%	\$ 22,786	\$ 117,786	4.30%	\$ 27,000	3.00%	\$ 4,000	\$ 31,000	
2006	2.50%	95,000	5.00%	23,925	118,925	4.30%	28,000	3.00%	4,000	32,000	
2007	2.50%	100,000	5.00%	25,121	125,121	4.30%	29,000	3.00%	4,000	33,000	
2008	3.00%	100,000	5.00%	26,378	126,378	4.30%	30,000	3.00%	4,000	34,000	
2009	3.30%	105,000	5.00%	27,696	132,696	4.30%	32,000	3.00%	4,000	36,000	
2010	3.60%	110,000	5.00%	29,081	139,081	4.30%	33,000	3.00%	4,000	37,000	
2011	3.85%	115,000	5.00%	30,535	145,535	4.30%	34,000	3.00%	5,000	39,000	
2012	4.00%	120,000	5.00%	32,062	152,062	4.30%	36,000	3.00%	5,000	41,000	
2013	4.10%	125,000	5.00%	33,665	158,665	4.30%	38,000	3.00%	5,000	43,000	
2014	4.25%	130,000	5.00%	35,348	165,348	4.30%	39,000	3.00%	5,000	44,000	
2015	4.40%	135,000	5.00%	37,116	172,116	4.30%	41,000	3.00%	5,000	46,000	
2016	4.50%	140,000	5.00%	38,972	178,972	4.30%	43,000	3.00%	5,000	48,000	
2017	4.60%	150,000	5.00%	40,920	190,920	4.30%	44,000	3.00%	6,000	50,000	
2018	4.70%	155,000	5.00%	42,966	197,966	4.30%	46,000	3.00%	6,000	52,000	
2019	-	-	5.00%	45,114	45,114	4.30%	48,000	3.00%	6,000	54,000	
2020	-	-	5.00%	47,370	47,370	4.30%	50,000	3.00%	6,000	56,000	
2021	-	-	5.00%	38,309	38,309	4.30%	53,000	3.00%	6,000	59,000	
2022	-	-	-	-	-	4.30%	55,000	3.00%	6,000	61,000	
2023	-	-	-	-	-	-	-	3.00%	7,000	7,000	
Total		\$ 1,675,000		\$ 577,364	\$ 2,252,364		\$ 706,000		\$ 97,000	\$ 803,000	

See accompanying independent auditors' report.

City of Traer

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the year ended June 30, 2004

	<u>2004</u>
Receipts:	
Property tax	\$ 450,358
Tax increment financing collections	7,978
Other city tax	67,751
Licenses and permits	2,154
Use of money and property	18,604
Intergovernmental	289,983
Charges for service	214,406
Miscellaneous	<u>447,982</u>
Total	<u>\$ 1,499,216</u>
Disbursements:	
Operating:	
Public safety	\$ 159,791
Public works	310,259
Health and social services	4,693
Culture and recreation	140,266
Community and economic development	98,216
General government	151,884
Debt service	205,107
Capital projects	<u>1,465,379</u>
Total	<u>\$ 2,535,595</u>

See accompanying independent auditors' report.

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor, Members of the City Council and
Board of Trustees, Traer Municipal Utilities:

We have audited the financial statements of the City of Traer, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Traer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items III-C-04 and III-G-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Traer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Traer's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Traer; the officials, employees and customers of the Traer Municipal Utilities and other parties to whom the City of Traer and the Traer Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer and the Traer Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
August 31, 2004

City of Traer

Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Traer

Schedule of Findings

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Utility should review control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City and Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Traer

Schedule of Findings

Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

- III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- III-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows.

Paid to	Purpose	Amount
Europa Ski and Cycle Shop	Retirement gift for Utility General Manager	\$3,990

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The board should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the city should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation and pass a resolution.

Conclusion – Response accepted. However, this is the type of activity which requires close scrutiny by the board even if though a resolution has been passed.

- III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-E-04 Business Transactions – We noted no business transactions between the City and City officials, the Utilities and Utility officials, or employees.
- III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Traer

Schedule of Findings

Year ended June 30, 2004

III-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council and Board minutes but were not. Although minutes of Council and Board proceedings were published, they were not always signed by the proper officials as required by Chapter 380.7 of the Code of Iowa.

Recommendation - The City and Utility should comply with Chapter 380.7 of the Code of Iowa and should sign minutes as required.

Response - We will comply with the Code requirements for signing minutes as required.

Conclusion - Response accepted.

III-H-04 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the cities investment policy was noted. However, we noted two former employees were still named on the authorized signature cards for the IPAIT investments.

Recommendation - The City and Utility should remove the two former employees from authorized signature cards in a timely manner.

Response - We will remove the former employees from all authorized signature cards.

Conclusion - Response accepted.

III-I-04 Revenue Bonds and Notes - The City and Utility have complied with the revenue bond and note resolutions.

III-J-04 Financial Condition - Their were no funds which had deficit balances at June 30, 2004.

III-K-04 Tax Increment Financing and Employee Benefits Levy - The City is recording tax increment financing and the employee benefits tax levy in the General Fund.

Recommendation - Collections from tax increment financing and the employee benefits tax levy should be recorded in separate Special Revenue Funds.

Response - The City will review their fund structure.

Conclusion - Response accepted.

City of Traer

Required Supplementary Information

Other Supplementary Information

Basic Financial Statement